

# Sullivans Cove Tramway

## BUSINESS PLAN

- V2.4
- 24-11-03



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- 2.4
- 24-Nov 2003

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## Executive Summary

In June 2003, Sinclair Knight Merz was appointed by Hobart City Council to prepare a business plan for the construction and operation of a Tramway on a defined route around Sullivan's Cove on the Hobart foreshore.

As per the Terms of Reference, the conclusions made in this report are based on consultation with tramway operators elsewhere in Australia and New Zealand and interviews with agency and individual stakeholders with an interest in Sullivan's Cove and the Hobart Tourism sector. The broad findings of this report are as follows:

- the tramway should be designed and promoted primarily as a tourist tramway and not as part of a broader commuter service for Hobart in its initial stage
- the tramway's position within the epicentre of tourism for Tasmania will lend it a very high level of exposure which will add considerably to its ability to attract a large patronage.
- the tramway is expected to incur cash operating costs of some \$215,000 per annum (including labour costs, insurance, marketing, maintenance, office consumables, interpretive display installation and electricity)
- given an average daily ticket price of some \$4.25 (\$5 adults, \$3.50 children/concession), a total of 50,600 tickets will need to be sold to cover the tramway's cash operating costs (assuming all other revenue sources are insignificant).
- given the large number of visitors to the Hobart Waterfront it is expected that this target market could be achieved, and if marketed effectively (in terms of creative ticketing, product design and promotion), the tramway could attract of the order of 80,000 ticket sales per annum
- The main strengths of the tramway are its location, its support from Council and adjacent tenants in Hunter Street and the authenticity of its heritage trams
- Its main weaknesses are the shortness of the route (which is within walking distance for an able-bodied person) and difficult access across Davey Street
- Its main opportunities are for potential linkages with local attractions and other transport facilities (ferries, etc) and the potential for route extensions
- The main threats to the tramway's viability are the availability/cost of public liability insurance and conflicts with the Australian Standard for Rail Safety. Development approval for the project is also pending an appeal which may delay the process.
- Council should call for public expressions of interest for a private-sector entity to operate the tramway via a concession arrangement which gives Council a high degree of discretion about how the tramway should be run and which ensures that all assets are returned to Council in a specified condition after a fixed term



- Council should investigate the feasibility of route extensions which would enhance the value and returns from the tramway beyond its present scope.





# **1. Introduction**

In June 2003, Sinclair Knight Merz was selected by Hobart City Council to prepare a business plan for the construction and operation of a Tramway on a defined route around Sullivan's Cove on the Hobart foreshore. This study was completed by SKM with assistance from the University of Tasmania's Tourism Department.

The study was the latest in a series of investigations tendered by Hobart City council which were designed to highlight the technical, market and financial aspects of a proposed tramway in Hobart. The Terms of Reference for this study are detailed in the following section.

The sequence of chapters in this report is as follows. Chapter 2 provides a description of the tramway proposal which has been developed by Hobart City Council over the past decade. Chapter 3 then provides background to the tourist markets in Tasmania and Hobart, noting the importance of the Hobart Waterfront as the most visited area in the state. The chapter presents a SWOT for the tramway, based on its characteristics and the local tourist market.

Chapter 4 then presents the business case for the tramway – based on the experience of other operating tramways in Australia and New Zealand and information gathered from local tourist operators. Chapter 5 then determines the break-even patronage for the tramway and a brief indication of the main sensitivity points for the tramway operation.

Chapter 6 then presents some of the key risks which are faced moving forward and Chapter 7 describes the main options for operating the Tramway.

Chapter 8 then concludes with a summary of key findings.

## **1.1 Study Terms of Reference**

The stated objective of this study was to complete a business plan for the operation and construction of the proposed tramway including a clear management and governance structure.

The scope of work was divided into two stages: a first stage to determine the break-even conditions (in terms of patronage) and the likelihood of achieving this patronage. In the event that Stage One was favourable, a second stage of works would then proceed to identify the main risks of the project and present an operating and management structure for the tramway. This report covers both Stages One and Two.

The present study may be described as a 'partially closed' business case in that it has been prescribed to determine the feasibility of a specific, proposed tramway which has been specified to run along a given route with particular technologies in place and with a given collection of rolling stock. The tramway proposal is presented in the following Chapter.

**SINCLAIR KNIGHT MERZ**



## 2. Proposed Tramway

### 2.1 Introduction

Over the past decade, Hobart City Council has let a series of tenders to determine the technical and market feasibility of a tramway within the City.

While the route and technical details of the proposal have changed over time, the fundamental intention was that the tramway would serve as both a tourist attraction and a means of providing a transport link between the Salamanca side and the Hunter Street side of the Cove.

Throughout its planning and development, the overall objectives of the tramway are understood to have remained:

- To add to the quality of tourist product available to visitors to Hobart
- To add to the quality of life of Hobart residents and
- To operate in a financially sustainable manner over the long term
- To provide a means of conveying visitors around the foreshore of Sullivan's Cove.

The present tramway proposal is the most developed to date, since Hobart City Council has already completed the restoration of two tram bodies and submitted a Development Application to Council to gain planning approval for the project.

The following summary illustrates the intention of the tramway:

- Track of some 1.15 kilometres running between Castray Esplanade at the Southern End of Princess Number 1 Shed to Hunter Street Via the edge of Davey Street, Mawson Place and Morrison Street.
- Though one tram will generally operate alone, there is provision for two trams to operate simultaneously via a passing loop at Morrison Street.
- The trams will be powered via a single overhead power line supported by poles which will generally replace streetlight poles
- The tram will terminate at a shed within the Hunter Street buildings, between the University of Tasmania's School of the Arts and the IXL Hotel/Apartment development. The shed will have some 38 square metres of space for interpretation of the trams and another 260 square metres for storage for five trams.<sup>1</sup>
- Over the years, Council has proceeded with the project by undertaking to restore trams that are believed to be broadly representative of the most popular and widespread trams within Hobart

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<sup>1</sup> Limited plans have been made for the interpretation space, though Council and other stakeholders are supportive of the concept.



in given eras. To date, Council has restored one double-deck 1915 Tram No. 17 and a single-deck 1917 No. 39. Restoration of a 1941 double bogie No.118 is underway. Council has procured the bodies of another two trams and their restoration is at the planning stage. Restoration is being undertaken by Mr Tony Coleman, under license from TMAG.

- The tramway may contain up to 4 uncovered stops (plus a terminus) with disabled access points (wheelchair lifts) available at the proposed stops.

The next section of this report presents a description of the place of the Sullivan's Cove Tramway as a tourist attraction (rather than a commuter service) and presents a case for where it should be placed to gain the most effective influence on the Hobart tourist markets.



### 3. Business Case - Context

In order to develop a coherent business case for the tramway, both the cost and revenue sides of the equation were estimated via a combination of stakeholder consultation and desk research.

The group of stakeholders consulted included staff of a number of government agencies, including DIEIR, Department of Economic Development and Tourism Tasmania and tourist operators including the Tasmanian Museum and Art Gallery and the Tasmanian Tourism Council, the operators' peak association.

In addition to these interviews, a number of tramway operators from across Australia and New Zealand were also consulted to determine the sources of their demand and the markets which tended to visit them as well as their operating cost profiles. A full list of the interviewees is presented in Appendix A.

The desk research for the study involved analysis of tourism trends within Tasmania and Hobart more specifically with consideration of the market niche that the tramway is expected to serve.

#### 3.1 The place of the Tramway

In its current design, the Sullivan's Cove tramway is intended to function as a tourist attraction while at the same time providing a means of travelling within the Cove as an alternative to walking. This would be in addition to the local transport system which incorporates a network of bus routes running along Davey Street, Sandy Bay Road. Hobart Metropolitan bus services (routes 52 and 55) stop at Salamanca Place on Castray Esplanade each hour during weekdays (in both directions) and each 40 minutes on weekends and public holidays (in both directions).<sup>2</sup> The business plan for the tramway is prepared as a business plan for a tourist attraction, and considers the *tourist* markets that it would operate within, rather than the *transport* markets that it would serve.

As noted in Table 3-1, below, the proposed tramway along Sullivan's Cove does not present a competitive advantage for being a public transport service, but rather as a tourist operation.

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<sup>2</sup> The travel time between the Salamanca Place bus stop and Hobart City are approximately 6 minutes (Metro Tasmania Timetable,



■ **Table 3-1 Tourist Operation or Public Transport Service**

<b><u>Tourist Attraction*</u></b>	<b><u>Public Transport Service* ^</u></b>
<ul style="list-style-type: none"> <li>✓ No direct competitors (no scheduled tramway or railway service in Hobart)</li> <li>✓ Able to charge higher fee from patrons (higher valued service)</li> <li>✓ Support from tourist association (marketing, etc)</li> <li>✓ In keeping with branding of Hobart</li> <li>✓ Takes advantage of restoration work already undertaken by Council</li> <li>✓ Advantageous position (link between existing tourist attractions along the Cove foreshore)</li> <li>✗ higher startup costs (design and installation of interpretive material, updates required)</li> <li>✗ higher operating costs (maintenance of interpretive material)</li> </ul>	<ul style="list-style-type: none"> <li>✓ Lower start-up costs for operator (restoration costs lower)</li> <li>✓ Will be effective connection between sides of Sullivan's Cove</li> <li>✗ Direct competition from existing services</li> <li>✗ Proposed route is too short (walkable distance for able-bodied person)</li> <li>✗ Proposed service too slow (compared with walking or other modes) at a 15 minute one way trip</li> <li>✗ Proposed route within a poor position (not leading anywhere for commuters or providing a useful connection)</li> <li>✗ tram designs are too small for peak hour commuting, when services are in the highest demand</li> </ul>

\*Note: a tick symbol in the table indicates a likely strength and a cross indicates a likely weakness or shortcoming. A more complete analysis of the Strengths Weaknesses Opportunities and Threats to the tramway is presented in Table 3-12

^In this sense, Public Transport is meant in the context of a city-wide network. As a local Public Transport Service, the tramway has merit in connecting the two sides of Sullivan's Cove.

The above table notwithstanding, there will be some instances where local residents may find the tram a suitable, if not convenient mode of transport. Other cities with heritage tramways (such as Christchurch) have recognised this and have developed separate ticketing systems for local residents, who may only pay a nominal fee for annual or semi-annual use.<sup>3</sup>

The expected revenue from a tourist tramway has been inferred via the stakeholder consultation and desk research noted earlier. The next section describes the nature of the tourism market in and around Hobart and indicates trends for the future.

### **3.2 Tourist Market Analysis**

The Tasmanian and Hobart tourism markets provide essential background for the tramway proposal and indicate which 'niche' the proposal may fill.

<sup>3</sup> This issue is discussed in more detail in Section 4.1.1 below.

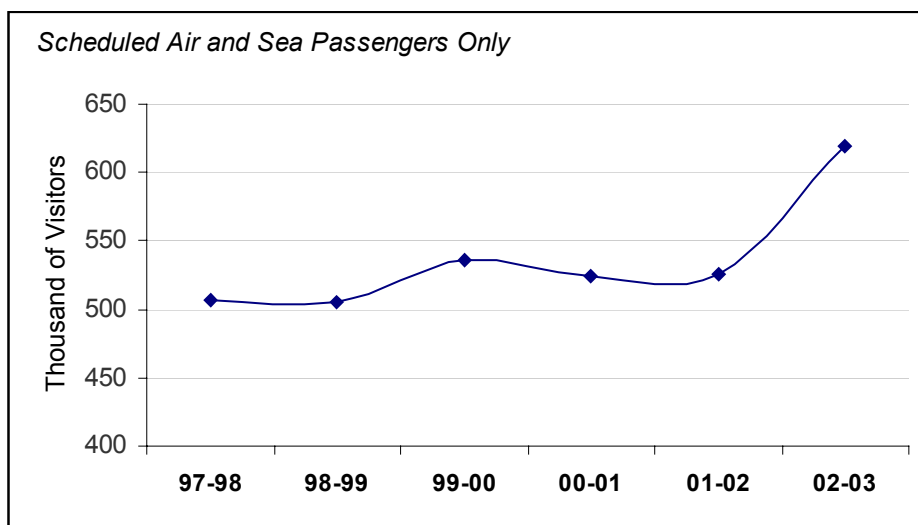


### 3.2.1 Tasmania

The Tasmanian tourism industry is experiencing an unprecedented level of growth at the present time, with virtually all segments and origins of tourists visiting the state in greater numbers than before staying longer and spending larger amounts whilst in Tasmania. The specific *reasons* given for the increase in tourism receipts are varied, and it appears to be the result of well-targeted marketing to domestic and overseas markets, combined with improved access (via the establishment of a daily ferry service each way between Melbourne and Devonport).

■ **Table 3-2 Total Visitor Numbers to Tasmania (YTD March)**

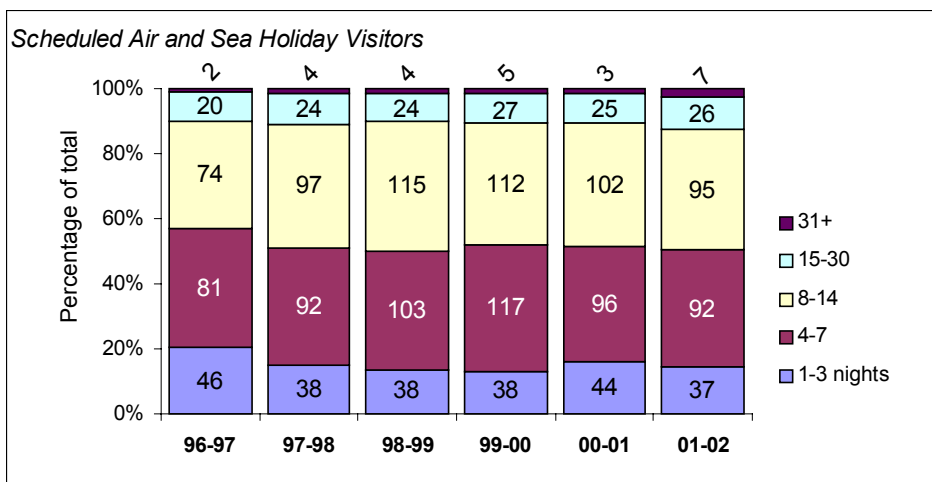
...The past 12 months has seen a large increase in total visitation to Tasmania...



Source: Tasmanian Visitor Survey, 2001, 2002, 2003 (Tourism Tasmania)

■ **Table 3-3 Length of Stay - Holiday Visitors**

...The length of visits is increasing – with relatively fewer 1-3 night visitors and more 15-30 night visitors...



Source: Tasmanian Visitor Survey, 2001, 2002, 2003 (Tourism Tasmania)

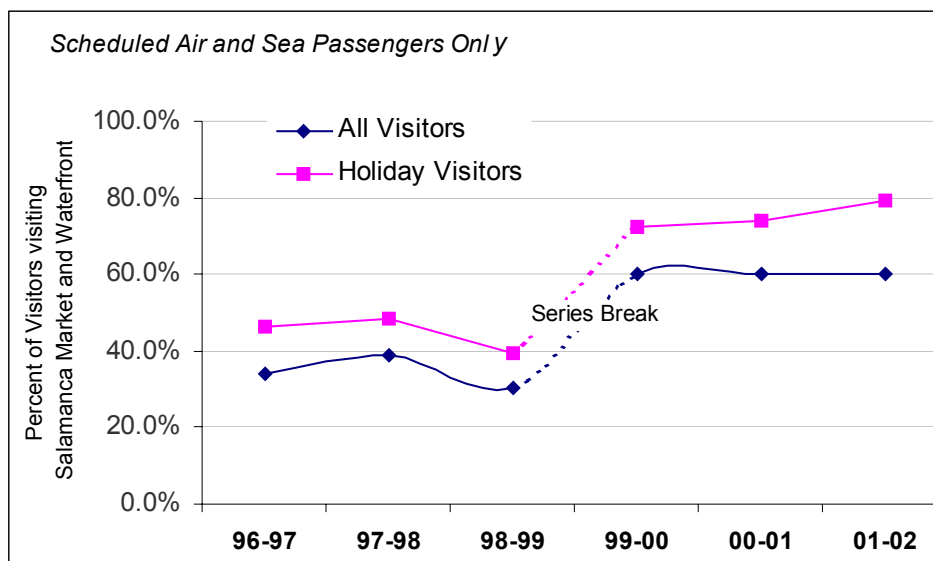


### 3.2.2 Hobart

Since detailed tourism statistics have been kept for Tasmania, Hobart has remained the most visited 'attraction' within the state, with records indicating that a reasonably consistent 80% of all visitors to the state (whether on holiday or not) visit Hobart. In addition to this, Hobart is a popular destination for Tasmanian residents to visit. In 1997<sup>4</sup>, some 464,200 intrastate visitors visited the state capital, bringing the total number of visitors (interstate, intrastate and international) to some 800,000 in that year.<sup>5</sup> Considering the growth in the number of inbound tourists since then, it is conceivable that close to 900,000 visitors will pass through Central Hobart in the current financial year.<sup>6</sup>

Within Hobart, the waterfront region of Hobart Waterfront/Salamanca is consistently the most visited location for non-Tasmanians in the state, with almost 80% of all visitors to Tasmania at least passing through the waterfront precinct in 2001/2.

■ **Table 3-4 Percent Visitors to Salamanca Market/Hobart Waterfront (of all non-Intrastate Visitors to Tasmania)**



Source: Tasmanian Visitor Survey, 2001, 2002, 2003 (Tourism Tasmania). Note: in 2000, TVS questionnaire item changed from "Salamanca Market" to "Hobart Waterfront/Salamanca Market".

Salamanca Place and the Hobart Waterfront ('the Cove') command a special place within the Hobart (and hence Tasmanian) tourist markets (see Table 3-5). The Cove attracted some 318,000 interstate and international visitors in 2001/2 with over one hundred thousand intrastate visitors

<sup>4</sup> The last *Tourism Tasmania Intrastate Visitor Survey* was conducted in 1997.

<sup>5</sup> This calculation assumes that some 392,200 interstate and international visitors visited Hobart in 1997, as noted in the *Tourism Tasmania 1999 Datacard*.



also believed to pass through. For the past five years, the Cove has remained *the* most visited site in the state<sup>7</sup>, with Port Arthur second.

■ **Table 3-5 Top 10 Tasmanian Attractions**

Attraction	Day Visitors 2001/02 (Excl Intrastate)
Hobart Waterfront/Salamanca Market	318,800
Port Arthur Historic Site	205,900
Mount Wellington (Hobart)	159,100
Cataract Gorge (Launceston)	145,500
Lake St. Clair/Derwent Bridge	96,800
Hobart Botanical Gardens	93,800
Cradle Mountain	89,100
Freycinet National Park	85,100
Gordon River/Franklin River	81,100
Russell Falls/Mt. Field National Park	66,300

Source: TVS 2001/2, Tourism Tasmania, 2002

At the present time, a number of concurrent studies designed to clarify the future built form and market direction of Hobart are underway. These include a *Hobart Tourism Strategy* (due for completion in 2003, managed by Tourism Tasmania) and a *Hobart Waterfront (Urban Design) Project* (completion date unknown, managed by DIER). The *Hobart Tourism Strategy* will include the first large scale branding study of Hobart undertaken by Tourism Tasmania.

While the *Strategy* is still in preparation (due for completion late 2003)<sup>8</sup> there are a number of studies and reports which indicate what the key attractions and strengths of the area are for both local residents and visitors.

The *Sullivan's Cove Planning Scheme (1997)*<sup>9</sup> states that:

“...Sullivans Cove is recognised as a special place by the people of Tasmania. Set against the dramatic backdrop of Mount Wellington, with Hobart City Centre in the foreground and opening out to the Derwent Estuary, Sullivans Cove is one of the worlds finest city landscape settings. This unique urban and landscape form is what makes Sullivans Cove so special.” p.5

<sup>6</sup> This projection involves growth of 12.5% since 1997. As noted above, total visitor numbers to Tasmania have grown by more than 22% since 1997-8 (YTD March 2003 619,000, YTD March 97/98 506,700).

<sup>7</sup> Assuming that the break in series in 2000 reflects that some additional 100,000 to 150,000 visitors come to the “Hobart Waterfront/Salamanca Market” over “Salamanca Market”.

<sup>8</sup> According to Tourism Tasmania. Bridget Walch, Personal Communication.

<sup>9</sup> The version quoted in this report incorporates all amendments until 11<sup>th</sup> December 2002





“...The Cove is a place for people - its historic buildings, formal parks, roads and other public spaces have largely retained the pedestrian scale that existed during the early settlement of Hobart. Sullivans Cove is a cultural, artistic and festive focus for the City, and its public spaces are frequently used for market and other public events. Pedestrian access to the water’s edge is a unique feature of the Cove.”  
p.5

The ‘Mixed Use’ area of Sullivan's Cove between Battery Point and Hunter Street, which is proposed to accommodate the Sullivan's Cove Tramway is noted as one of the *Activity Areas* in the 1997 Planning Scheme and as Hobart's major tourist destination.

The noted objectives of planning in this area is designed to ensure that “its cultural integrity is maintained, that the cultural and heritage values of its open spaces are conserved and enhanced and to encourage the further development of the Activity area as a tourist destination.”

..The challenge of the proposed tramway is to complement or enhance the market image that Hobart has established as a focal point of authentic, high quality heritage attractions..

According to Tasmania’s South Regional Tourist Association<sup>10</sup> (which includes Hobart) people who visit Hobart are attracted to its heritage architecture, cultural attractions and colourful waterfront. According to Tasmanian Visitor Survey Statistics, over 80% of holiday visitors to Hobart visit Sullivan's Cove at some point in their stay. The challenge of the proposed tramway is to complement or enhance the market image that Hobart has established as a focal point of authentic, high quality heritage attractions and add value to the tourism product that is already offered to visitors.

#### ■ Table 3-6 Hobart Tourism Strengths

Authentic Heritage Attractions
Working Port
Colourful Waterfront
Good Pedestrian Access
Public Markets and local craft/shopping

Source: Personal Communications, Helene Stewart (TSRTA), Bridget Walch (Tourism Tas, Hobart Brand Manager).

### 3.2.3 Product Mix of the Cove and Proposed Pricing

A product audit was conducted within the Sullivan’s Cove region in order to develop a sense of the variety of opportunities which exists and their possible relationship with the tramway (see Appendix 1 for the entire product audit). It should be noted that the Antarctic Adventure has not been included, as it is due to be closed towards the end of the month.

<sup>10</sup> Personal Communication, Helene Stewart, Manager Tasmania South. July 2003



The product audit revealed that within the Sullivan's Cove region a wide variety of product exists- including retail outlets, accommodation, visitor attractions, pubs and nightclubs and food outlets (Appendix B). Listed below are the tourist attractions in the precinct (Table 3-7).

■ **Table 3-7 Visitor Attractions in the Sullivan's Cove Precinct**

Visitor Attractions	Location	Cost
Tasmanian Museum and Art Gallery	Macquarie Street	Free
Maritime Museum	Argyle Street	\$6.60
Tasmanian Visitor Information Centre	Davey Street	Free
Parliament House	Salamanca	Free
Gas Works	Gas Works	Free
Tasmanian Distillery	Gas Works	Free
University of Tasmania Art Centre	Hunter Street	Free
Brooke Street Pier & Cartela	Brooke Street Pier	\$18-35
Waterman's Café and Maritime Cruises	Brooke Street Pier	Dependant on tour
Captain Fells Tours	Brooke Street Pier	\$4-23 dependant on tour
Mawsons Place	Mawson Place	Free
Docks and Boats	Docks	Free
Salamanca Markets	Salamanca	Free
Hobart Historic Walks and Pub Tours	Hobart	\$19
Captain Fells Double Decker Bus	Derwent River	\$8
John Gregory Double Decker Bus Tours	Hobart	\$16
Tram Tour	Greater Hobart	\$30

Source: University of Tasmania

As can be seen from the above table, a variety of experiences exist in the Sullivan's Cove region. Many of these offer an experience related to its core strengths, as articulated in the business plan. These include that they offer attractions related to heritage aspects and the fact that Sullivan's Cove is a working port. It would appear that a tramway which was reconstructed to appear as it did in the early twentieth century would be consistent with the heritage and working port values which the Sullivan's Cove area has established. However, what would be important is that in delivering the experience to people, the interpretation must be authentic and delivered in a professional manner. This would ensure not only quality service, but the interpretation would be in keeping with the principles articulated in the *Tasmanian Experience Strategy* (Tourism Tasmania 2002).

Furthermore, given its short distance, the proposed tramway may also be considered to compliment existing attractions, many of which take 1.5- 2hrs to complete (e.g. cruises and greater Hobart tours, listed in Table 4). Moreover, some of the tours on the Derwent River and buses use only very basic interpretation, thus creating an opportunity for the tramway to develop a competitive advantage.



The product audit also revealed that has a number of businesses which exist in the Cove may be considered to be competition. These businesses are listed below (Table 4).

■ **Table 3-8 Potential Competition for the Tramway**

<b>Business Name</b>	<b>Description</b>	<b>Start Point</b>	<b>Time Involved</b>	<b>Cost</b>
Captain Fells Double Decker Buses	City Sights, Casino and Cascade Brewery	Brooke Street Pier	1.5hrs	\$16
John Gregory Double Decker Buses	City Sights, Casino	TVIN	1.5hrs	\$16
Roche O'May Cruises	Cadbury Moorilla/ Morning Tea Cruise/ Lunch Cruise	Brooke Street Pier	4hrs/2.5hrs/1.5-2hrs respectively	\$50/ \$18/ \$25 respectively
Tram Tour	Greater Hobart	TVIN	2hrs	\$10
Hobart Walking Tours	Walking tours of maritime area, historical tour or pub tours	TVIN	2 hours	\$19
Captain Fells River Cruises	Mini/ Discovery/ Lunch/ Dinner/ Cadburys	Brooke Street Pier	40mins/ 1.5hrs/2.5 hrs/2.5hrs/ day respectively	\$6/\$14/\$29/\$25 respectively/\$40

Source: University of Tasmania

It is possible to assess competition in terms of the area covered during the tour and also the duration. In terms of the area covered, the Greater Hobart Walking Tours could be considered to be competition as they cover a similar area, as could parts of the Double Decker tours. The Tram tours cover a far great area than Sullivan's Cove so may not necessarily be considered competition.

However all activities offered could be considered to be competition because they are competing for visitors' time, particularly the shorter tours offered by cruise companies. However, these may be considered as alternative activities, because they cover the Derwent River, so arguably service a different role and region. Thus it would seem that whilst there will be some competition competing for visitors' time, the short duration of the tram and it nature as a working 'heritage' attraction may give it a natural competitive advantage in the market place, such that it stands alone.

The proposed pricing of the tramway seems reasonable given its short distance and time to complete, particularly when compared with other attractions in the region (Table 5) which cost more- often above \$15, but also run for a far greater period of time- up to 2 hours.

What does seem important is that in order for the tramway to compete for visitors' time, it must be easy to catch. Other activities such as the tram service, double decker buses and walking tours currently leave from the TVIN in Macquarie Street. A tram stop close to this centre would appear to be important, so that it is perceived as being easily accessible from the information centre.



### 3.2.4 Seasonality

Seasonality is an ongoing issue which affects the Tasmanian Tourism Industry. However, indications are that the recent increase in visitation to Tasmania and also Hobart, have not only resulted in an increase in overall visitation in the peak season, but have also resulted in a lengthening of the season (Table 1). This rise in overall numbers has been attributed to the introduction of the two new high speed ferries across Bass Strait and an increase in air capacity to the state. It is expected that the visitation in the 2003/2004 season will match, if not increase upon the most recent peak season, particularly given that a third new ferry departing from Sydney will commence this summer.

These figures correlate with those collected by the Tasmanian Visitor Information Network in Hobart, whose door count has recorded an increase in visitors in all months between 2001-2003. In terms of the tramway, it would appear that, like most tourism businesses in Tasmania, it will face issues of seasonality. However should the encouraging growth during the last financial year continue, its ability to remain financially viable will be enhanced.

■ **Table 3-9 Visitor Numbers in Tasmania and Hobart, by arrival dates 2001-2003**

	2001/2002 Tasmania	2002/2003 Tasmania	2001/2002 Hobart	2002/2003 Hobart
July	23200	24,300	17,400	18,600
August	21500	18,200	17,600	13,900
September	21400	30,700	17,600	23,300
October	28,500	39,500	23,800	31,000
November	34,300	41,300	27,500	32,700
December	48,800	60,400	38,800	49,000
January	39,800	51,300	32,700	41,100
February	38,100	47,500	31,600	37,400
March	41,900	48,500	33,000	40,200
April	35,600	41,700	28,500	31,700
May	23,800	28,300	18,000	23,200
June	12,200	19,000	8700	13,600

Source: TVS, 2003

From an visitation perspective, it is important that any business operating in the Sullivan's Cove region has the ability to operate 365 days per year. For example, during the month of June, there were approximately 13,600 who visited Hobart. The Tasmanian Visitors Survey estimated that 7.8% of visitors took a train ride during their stay in Hobart and 30% took a river cruise. When these two data sets are related to each other, the visitor numbers are equate to 1,068 (train) and 4,093 (river cruise), during the month of June; compared with 3,822 (train) and 14,7000 (river cruise) visitors during the month of December. Given that other trains and short river cruises could



be considered competition, these figures may be an indication of the potential visitor numbers that the tramway may have to deal with during its lowest season.

### 3.2.5 Market Segmentation of Visitors to the Cove

Obtaining data on visitors to Sullivan's Cove and more specifically the *types* of people who visit the Cove is problematic. Whilst data exists which can indicate the numbers of people visiting the Cove and also the demographic qualities of those visiting Tasmania and Hobart (age, gender, place of origin, size of family, stage of life and income etc., which is collected in the Tasmanian Visitor Survey), data is not available which would indicate the psychographic qualities of those visiting the area. These psychographic qualities are important because they can give detail on the core values of visitors, their motivations and consequently their likelihood to use an experience such as a Tramway. Unfortunately data such as this was unable to be sourced for visitors to Sullivan's Cove.

Therefore the following analysis relies on data regarding visitation to the Cove which is collected on a yearly basis by Tourism Tasmania through the Tasmanian Visitors Survey (TVS). This data can provide an indicator of visitors to Sullivan's Cove however it should be noted that where data exists for Sullivan's Cove it is referred to and where it does not, data for Hobart will be used.

Data from the most recent TVS (April 2002-March 2003) is able to estimate the total visitation to Hobart City. It suggests that there has been a marked increase in visitation to Hobart day visitors, and that the number of overnight visitors has also increased (Table 3-10 below). Interestingly, though, when compared to the total number of visitors to the state, the number of people who stayed overnight in Hobart actually dropped from 64.5% in the year to March 2002 to 61.6% in the year to March 2003. Conversely, of all the people that visited Tasmania, a higher percentage stopped in Hobart for a day trip in 2003 (15.2%) than the previous year (11.9%, TVS 2003). If these figures are indicative of a trend towards day tips, a short experience such as a tramway could be appealing to the trends of the market.

■ **Table 3-10 Visitors to Hobart City April 2002-March 2003**

	YTD March 2002	YTD March 2003
Stopped But didn't Stay Overnight (A)	62,700	94,300
(B) Stayed Overnight	338,900	381,200
Total (A+B)	401,600	475,500

Source: TVS (2003)

More specifically, it suggests that in the year to June 2003, 376,300 people visited the Salamanca/Hobart Waterfront Region- a significant increase over the year prior when 303,700 visited the area (TVS 2003).



Of those who do stay in Hobart, the TVS (June 2003) suggest that their total time spent in the state is very short. 18.5% stay for 1-3 nights; 31.4% for 8-14 nights; and only 7% for 15-21 nights. Unfortunately data is not available for Hobart or Sullivan's Cove. However the importance of this existing data for the state is that it illustrates that visitors time is limited, this emphasising the need for short activities.

Whilst not able to give specific data on Sullivan's Cove, the TVS collects data on the gender of people visiting Hobart City. In the year to June 2003 they were even, with 49.9% female; and 49.9% male

Interestingly, the TVS reveals that visitors to Hobart tend to be empty-nesters or those without children. Indeed, 79.8% of visitors to Hobart in the year to June 2003 had *no* children in their household. Only 8.4% had one child in the house household followed by 7.8% who had two children in the household. Arguably these statistics are important for the Tramway proposal because it means that the tramway should *not* be designed to appeal to families. However, it should be remembered that this data relates only to *interstate* visitors. For families based in Tasmania (for which data is unavailable) and those that do visit (see figures below), the tramway will provide an attraction which is short in its duration. This should be borne in mind when the interpretation for the tramway is designed.

An analysis of the type of travel party may also be used as an indicator of the type of market which is currently visiting Hobart (data is unavailable for Sullivan's Cove). This data also suggests that in order for the tramway to be a success, it must bear in mind that it is *not* aiming at the family market. The TVS to June 2003 suggests that 24.4% of visitors to Hobart were travelling alone, 39.1% as a couple and 10.8% as a family with children. Other travel groups included those travelling with other family or friends (9.0%) and small groups of friends (5.5%).

In addition to data on household structure and travel party, the demographic data collected by the TVS is useful in indicating the types of visitors to Hobart according to their age segments. This data suggests that over 30% of visitors to Hobart are over the age of 55 – a growth from 25% in the year previous, which probably reflects the ageing population in Australia (Table 3-11).

■ **Table 3-11 Age of Visitors to Hobart**

Age	Percentage Year to Date June 2002	Percentage Year to Date June 2003
65+	10.1%	10.6%
55-64	16.5%	19.5%
45-54	23.6%	23.5%
35-44	19.7%	18.5%
25-34	19.4%	19.2%
14-24	10.0%	8.2%

Source: TVS



Whilst the business report suggested that the Tramway should not be developed solely as a mode of public transport, its popularity as a mode of transport *and* an experiential product, its use may be higher amongst people over the age of 55.

Given that the tramway is to be of a short length, and therefore marketed as an experiential product, it may be possible that its appeal will be higher amongst those visiting the state for the first time. In 2003, whilst first time visitors to the state made up 38.2%, although a higher percentage of visitors who were in the state for the first time were in Hobart (43.7%) (TVS YTD June 2003).

A further way in which the market can be segmented and understood is by looking at the activities which they undertake whilst in Tasmania and the Hobart Region. Unfortunately the data is limited to the activities addressed in the TVS (year to date June 2003), but they do include visiting 'Salamanca/Hobart Waterfront' (73.5% of those in Hobart, or 376,300 visitors), visiting museums (26.5% of visitors to Hobart 135,600 visitors) taking a train ride (7.8% of total visitors to Hobart or 40,000) and taking a river cruise (30.1% of those in Hobart or 154,300 visitors). The figures for 'visiting museums' 'taking a river cruise', 'taking a train ride' and 'taking a river cruise' should be viewed with caution because they relate to the what people have done during their time in Tasmania and not necessarily in Hobart itself. Conversely they are useful in that they indicate that visitors to Hobart are likely to undertake these activities- particularly river cruises which may be considered to be competition to the Tramway (discussed below).

### **3.3 Tram service SWOT**

In order for the proposed tram service to match the tourist segments reaching the Hobart waterfront area, it will need to take account of the present reasons that visitors and locals find the area so appealing and incorporate or complement them. As a short-hand method of determining the alignment of the proposed tramway with the existing (and expected) target tourism markets, a Strengths, Weaknesses, Opportunities and Threats (SWOT) table is provided.

On the basis of the consultation undertaken with tramway operators elsewhere in Australian and New Zealand, the Sullivan's Cove Tramway is forecast to have the following :





■ **Table 3-12 Sullivan's Cove Tramway – Summary SWOT**

<b>Strengths</b>	<b>Weaknesses</b>
<ul style="list-style-type: none"> <li>■ Located at the epicentre of Tasmanian and Hobart City tourist trades</li> <li>■ Proposed to utilise authentic trams from Hobart's past – lends key authenticity to project</li> <li>■ Ability to link in with existing Heritage tourist product in Hobart Waterfront</li> <li>■ Double-decker tram will be unique in Australia</li> <li>■ Supportive City Council, adjacent tenants in Hunter Street, tourism operators</li> <li>■ Existing relationship with TMAG (tram body restoration)</li> <li>■ Restoration Work undertaken to date (including research and network establishment)</li> <li>■ Able to draw on expertise of Council staff, Tasmanian Transport Museum (Glenorchy)</li> <li>■ Timing of proposal is favourable, given recent growth in tourism and investment in tourism infrastructure at the present (2003-4).</li> <li>■ Space is available within terminus for interpretation of the tramway and Hobart's tramway heritage</li> </ul>	<ul style="list-style-type: none"> <li>■ route is a well-used pedestrian area – public walking areas will be the greatest direct competition for the service</li> <li>■ route is too short to become 'essential' for passers-by seeking to get from Castray Ave to Hunter St.</li> <li>■ difficult crossing over Davey St (east-west) hinders connection of tramway from Davey Street (and Macquarie Street) attractions</li> <li>■ route is not sufficiently long to connect any existing attractions which are outside walking distance for an able-bodied person. Hence for most users, the tramway will need to be an attraction in its own right.</li> <li>■ The space available for interpretation is quite small (38 square metres) which will hinder its ability to display large amounts of material or to provide an immersive experience to visitors.</li> </ul>
<b>Opportunities</b>	<b>Threats</b>
<ul style="list-style-type: none"> <li>■ potential to link with other transport/tourist facilities (ferries, bus tours, etc)</li> <li>■ potential to link with museums, galleries, etc in joint-ticketing arrangements</li> <li>■ potential to link with Hobart Visitor Information Centre to publicise events in Hobart and the Southern Region</li> <li>■ opportunities to receive operating advice and materials from COTMA</li> </ul>	<ul style="list-style-type: none"> <li>■ Insurance:               <ul style="list-style-type: none"> <li>— potential problem obtaining public liability insurance (as other tramways have)</li> <li>— conflict with pedestrian areas may increase perception of risk and raise premiums</li> </ul> </li> <li>■ potential lack of dedicated, skilled volunteers to provide service otherwise unavailable</li> <li>■ ongoing uncertainty owing from DA objections may hinder private investment in scheme</li> <li>■ some tram designs may not meet the Australian Standard for Rail Safety, thus requiring expensive alteration or removal from service</li> </ul>





## 4. Tramway Proposal - Business Case

As noted earlier, the Sullivan's Cove Tramway proposal has been designed with the intention of appealing to Hobart tourists who are already visiting the Cove precinct in large numbers.

The main characteristics of the tramway operation which will determine its sustainability as a business are its expected market and cost structure. The method and main findings of stakeholder and desk research are presented in this chapter, followed by a summary of the estimated position of the Hobart Tramway.

### 4.1 Consultation - Summary Results

In order to predict the impact and market of a tramway at the Cove, the operators of a number of other tramways across Australia and New Zealand were asked about their markets, patronage, operating costs and revenue streams. The list consulted and key findings were as follows:

■ **Table 4-1 Characteristics – Selected Tramways, Australia and New Zealand**

	<i>Selected Characteristics</i>					
<i>Tramway Name</i>	<i>Within City Limits ?</i>	<i>Opening Date</i>	<i>Annual Patronage*</i>	<i>Operating Days per year</i>	<i>Track Length (km)^</i>	<i>Adult Fare (\$)</i>
Bendigo Tramway (Bendigo trust)	Y	1972	50,000	365	4.2	12.90 (return trip)
Sydney Tram Museum	N	1993	35,000	120	2.0	6.00 (return trip)
Adelaide Tramway Museum	N	1974	6,000	80	2.0	24.00 (family daily)
Christchurch Tramway	Y	1995	200,000	364	2.5	12.50 (two-day)
Auckland Tramway	Y	1980	70,000	364	1.1	1.00 (return trip)
Portland Cable tramway	Y	2002	14,000 <sup>#</sup>	364	3.7	11.00 (daily ticket)
Ballarat Tramway	Y	1974	14,000	120	1.0	2.00 (return trip)
Perth Electric Tramway Society	N	1985	22,000	120	2.0	4.00 (return trip)
<b>Hobart Proposal</b>	<b>Y</b>	<b>?</b>	<b>?</b>	<b>?</b>	<b>1.3</b>	<b>?</b>

Source: Published reports, operator interviews

\* many of the patronage figures are estimates, due to multiple-day ticketing

^ all track lengths noted are single direction or closed loops.

^^Days per year – 364 (only closed Xmas Day), ~120 (open Sat, Sun, public and school holidays, or Sun, Wed, public and school holidays), 80 (Only open Sundays and school or public hols).

<sup>#</sup> The attendance figure for the Portland Tramway is for its first year of operation and does not reflect a long term average.

The tramways presented in Table 4-1 show a wide diversity in scale and type of operation across the sector. Tramways may be divided broadly into two groups – those which are located within a



large city centre and have access to large numbers of potential users already on their 'doorstep' and tramways which require a dedicated trip to reach them. The smaller tramways, such as Adelaide (St Kilda Tramway Museum) and Perth (Perth Electric Tramway) have much more limited markets and hence operate over a much shorter 'season' than tramways in the central city locations tend to be open every day of the year and have correspondingly higher patronage. More remote tramways also tend to have markets which are more focussed on family groups, than tramways in city centres which attract a cross section closer to existing touring parties.

Another of the important points within Table 4-1 is that many of the operating tramways in Australia and New Zealand operate relatively short lengths of track (such as that proposed for Hobart). Many of these tracks would be considered to be within walking distance, or are along existing walking routes (such as in Auckland and Christchurch). The Tramway route nominated by Hobart City Council does appear to be an existing walking route, which attracts pedestrians to the scenic, working waterfront area and numerous attractions between Castray Avenue, Davey and Macquarie Streets. In order for the tramway to be successful, it will need to draw a significant proportion of this existing pedestrian traffic, as well as draw other (non-pedestrian) visitors to its service.

#### **4.1.1 Ticketing**

The trend in tramway ticketing appears to be toward daily or two-day tickets, which gives patrons the opportunity to take a single trip when they arrive at the line and when they reach the end, to take a return trip at their convenience. In Christchurch (one of the most successful operations) the visitor ticket is valid for two days. For short routes it is important to give patrons the impression of extra value (by additional trips on the same ticket and other means) and hence daily (or longer) tickets are a logical choice for Hobart.

Daily tickets are also logical for densely populated/visited areas where people have a variety of attractions to see within a relatively short space of time and may prefer to take a return trip sometime after their initial trip – with a detour to another attraction in between. Daily tickets also appeal to tram or transport heritage enthusiasts who may seek to travel on more than one tram for a given fare. Several tramways vary their trams through the day (St Kilda and Sydney for example) in order to broaden the appeal of their service. With three different trams (and double-deck tram included) proposed to be run as part of the service, Hobart would appear to benefit from a daily ticket.

Where tourist tramways have been established in city centres, there has also been a move to offer tickets to local residents (or ratepayers) at a lower rate than visitors – in some instances substantially lower. In Christchurch, perhaps the closest analogue to the Hobart proposal, local residents may travel on the tramway loop for only \$12.00 per year, compared with two-day tickets costing \$12.50 for visitors. Such subsidies encourage local residents to take visiting friends and



relatives on the tramway (who are more likely to have experienced it and it is already at no cost to them) and project a healthy image to tourists since the trams will generally have a number of passengers in them. The Christchurch tramway claims that visitors make up some 75% of patronage in summer, and 25% of patronage in winter.

Another way for tramways to raise additional revenue is via combination of a tramway ride with a museum admission or other allied attraction. Most of the tramways across Australia and New Zealand began as coalitions of dedicated volunteers who restored and presented trams in static displays for public viewing, whilst awaiting the necessary funding for an operable tramway to be established.<sup>11</sup> As a result of this process, most of the operating tramways hold interpretive material and artefacts which add value to the quality of visitors' experiences. For some tramway operations, their museum is as much of an attraction as the tramway itself (such as the Sydney Tram Museum) and combined or split-tickets are both offered.

Revenue streams or overall demand are also broadened by the installation of interpretive material within the trams themselves (as with Bendigo's *Talking Trams*) or via café trams (Bendigo, Christchurch).

#### **4.1.2 Personnel**

The tramways consulted showed different approaches to staffing, with volunteers and paid staff being used in varying capacities. In the main, volunteer labour is much more common than paid labour, with the ranks of volunteers generally filled by paying members.

The staff positions involved in running a tramway may be split into two groups: *works* and *traffic*. The Works staff are generally involved in track and tram maintenance, restoration or upgrades. Traffic staff are involved in collection of fares, front-of-house duties (cashier), driving and conducting the trams. Other roles such as marketing (websites), book-keeping and other administrative duties are split between these two groups. In many instances, individual staff will be involved in both traffic and works roles, with some volunteering for a traffic role and being paid for a casual works role, for example.

The availability of volunteer (or paid) staff does not appear to be a problem for any of the tramways consulted – despite many of their host cities not having run trams for over a generation. In Perth, where trams<sup>12</sup> have not run since 1958, there are 87 members (37 active) and no apparent

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<sup>11</sup> Hobart is no exception, with the Tasmanian Transport Museum at Glenorchy involved in tram restoration since 1960 and opening static tram displays to the public in 1983. The Museum operates a diesel train on 500 metres of track every second Sunday and a steam train to Hobart three times each year. There are no operating trams at the museum.

<sup>12</sup> In 1958, the Subiaco, North Perth and Inglewood lines closed. The Inglewood line was replaced with a trolleybus service (Perth Electric Tramway Society).



shortages of dedicated or skilled volunteers to maintain operations. The Glenorchy Museum hosts between 80 and 100 members, with 20 of them active (both traffic and work volunteers).

■ **Table 4-2 Staffing Procedures, Aust and NZ Tramways**

	<i>Selected Characteristics</i>			
<i>Tramway Name</i>	Annual Patronage	Operating Days per year	<i>Personnel</i>	
			<i>Work Duties</i> <sup>^</sup>	<i>Traffic duties</i> <sup>^^</sup>
Bendigo Tramway (Bendigo trust)	50,000	365	Volunteers	50:50 paid/volunteers
Sydney Tram Museum	35,000	120	Volunteers	Volunteers
Adelaide Tramway Museum	6,000	80	Volunteers	Volunteers
Christchurch Tramway	200,000	364	Paid	Paid
Auckland Tramway	70,000	364	Volunteers	Paid (weekdays only)
Portland Cable tramway	14,000	364	Volunteers	Volunteers
Ballarat Tramway	14,000	120	2 Part Time Paid, 4 Volunteers	Volunteers
Perth Electric Tramway Society	22,000	120	Volunteers	Volunteers
Tasmanian Tram Museum, Glenorchy	3,500	80	Volunteers	Volunteers
<b>Hobart Proposal</b>	<b>?</b>	<b>364</b>	<b>?</b>	<b>?</b>

<sup>^</sup> Work Staff – maintenance, restoration

<sup>^^</sup> Traffic staff – drivers, conductors, front desk (cashier)

Due to the infrequent nature of most tramway maintenance, volunteer labour for *works duties* is generally more appropriate than paid labour. Since works duties are also undertaken after operating (and office) hours, a larger pool of available volunteers is also available than for driving duties. The lower time-dependency of works duties compared with traffic duties will also make them more suited to volunteer labour, which may have a lower reliability than paid labour if not organised effectively.<sup>13</sup>

...It is not expected that a 365-day service could be sustained with volunteer labour alone for 'traffic duties'....

Several of the tramways analysed also used volunteer labour for traffic duties, or combined paid and unpaid staff, with paid staff for peak periods or when volunteers were unavailable. It is not expected that a year-round service operating 365 days could be sustained with volunteer labour for traffic duties. While driving a unique restored tram is a highlight for an enthusiast, the repetitive nature of the task is more suited to a paid member of staff. The compromise situation is to either

<sup>13</sup> The reliability and quality of volunteer labour for tramways is improved when a volunteer roster is put in place. With a long term roster, retired or unemployed volunteers are able to plan their holidays around obligations for the tramway and have a greater sense of attachment and commitment to their set tasks.



*...The skill and  
charisma of tram  
drivers is  
important...*

share traffic duties between paid and unpaid staff for each day of the week (as in Bendigo where there is a large ex-tramway labour pool) or between weekdays and weekends (as in Auckland). With such compromises in place, volunteer labour is able to reduce overhead running costs without becoming over-stretched.

On the basis of current practice with other tramway operations, it is expected that an efficient operation could operate with a combined driver/conductor, provided that passenger safety could be guaranteed. Tramway operations which do not have extensive interpretation within the tram (such as Bendigo Tramways' 'talking trams') rely to a large extent on the skill and charisma of their drivers to entertain and inform their passengers. Since the Sullivan's Cove trams are not expected to have 'automatic' commentary about the route, it is expected that drivers would provide this service.

On the basis of wages presently paid to bus and coach drivers, the wage payable to tram drivers would be in the vicinity of \$40,000 each (including on-costs).<sup>14</sup> It is expected that one driver would be expected to run the tram on regular times of the year, and an additional driver for school holidays and traditional peak periods (summer holiday peak, Easter weekend, long weekends). The total cost of driving/conducting staff is expected to be \$60,000 - \$80,000 per annum.

In addition to a full time driver, a part time manager is also required for the tramway to be operated in an efficient and professional manner. The manager's duties will include setting the traffic and works rosters, staff management (selection, training and retrenchment), management of the members group and liaison with stakeholders on an as-need basis. The labour cost of a manager will be some \$45,000 - \$55,000 per annum, based on the wages (and 20% on-costs) paid to similar positions across Australia.<sup>15</sup>

## **4.2 Other operating costs**

In addition to staffing, there are other important operating costs applicable to the tramway - which apply to both the infrastructure (shed and track) or the rolling stock. The two most important items on a balance sheet after staff wages and on-costs are insurance and maintenance, with the supply of electrical power a relatively small item for the tramway's expense sheet (~\$5,000).

### **4.2.1 Insurance**

Recent sharp increases in the cost of public liability insurance in Australia (and worldwide) have meant that consideration of the full cost of insurance has become fundamental to many tramways both large and small.

<sup>14</sup> A complete list of the assumptions made about drivers and other staff wages is in Section 4.1.2.

<sup>15</sup> If the tramway is operated by council or an enterprise already involved in public transport, the management overhead for the tramway would be reduced further.



Many of the tramways consulted mentioned that in the past financial year, their public liability insurance premiums had increased - with the highest increase being 1,000%. Due to small size of the insurance market for tourist tramway services it is difficult for an operator to have any negotiating power when entering into an insurance agreement and many small operators in Australia have closed in the past twelve months while awaiting government or other forms of assistance in dealing with their insurance costs.<sup>16</sup>

According to industry consultation, the perceived risk of both rail and tram transport has increased internationally due to a number of high-profile accidents in North America and the UK, and have little bearing on the actual *demonstrated* increased risk of Australian operations. The main determinant of insurance premiums for tramways in Australia appears to be the number of trips/passengers carried and does not appear to reflect the condition of equipment used, qualification or professionalism of drivers or recent safety records.<sup>17</sup>

The cost of insurance has been made affordable for some tramways (such as Bendigo) via an arrangement with their municipal authority, however this option has not been available (or not suited) to many operators due to their ownership structures.

... Any final investment decision regarding the tramway should be made on the basis of a firm quote from a registered insurer...

Any final investment decision regarding the tramway should be made on the basis of a firm quote from a registered insurer. For the purpose of this business case, it is assumed that the annual cost of insurance will be some \$45,000 (commercial rate), based on similar tramways operated elsewhere in Australia.

#### 4.2.2 Tramway maintenance

Tram maintenance needs to be undertaken on a regular basis and may be either planned or unplanned. Given the nature of the vehicle procurement, ie. fitted out bodies of the original 1915 and 1917 trams, normal tram maintenance is unlikely to apply, particularly in relation of *timing* of major works. The nature of the rebuilt trams (as-new), the low speed of their operation (15 – 20 kmh) and the secure nature of the trackwork (steel tracks set into concrete) indicate that maintenance will be very low. Nevertheless, prudent management requires that a maintenance plan will need to be developed specifically for the vehicles. However an indication of some of activities that could be expected is given below.

<sup>16</sup> In the past 12 months, the Perth Electric Tramway has closed for 3 months and St Kilda (Adelaide), Haddon (Melbourne Tramcar Preservation Society) and Brisbane tourist tramways remain closed pending resolution of recent increases to their insurance charges.

<sup>17</sup> Based on personal communication, Perth Electric Tramways, St Kilda Tramway Museum (Adelaide), Sydney Tram Museum. At this stage it is unclear whether the operation of a double-deck tram will have any significant influence on the cost of insurance for the proposed Sullivan's Cove operation.



It is expected that regular maintenance of the trams will take place within the terminus/depot on Hunter Street.

Tramway maintenance is undertaken by the works staff described in the previous section, or will be contracted out to specialists (such as body restorers in the event of a collision or vandalism or others with heavy equipment required for a major overhaul). In the case of the Hobart tramway, it is expected that the drivers will complete most of the daily maintenance duties, with some supplementary help from volunteers.

As noted above, a significant proportion of the labour for works duties can be expected to be covered by volunteer labour. Based on the experience of other operating tramways across Australia, regular maintenance of the trams is expected to be undertaken by active volunteer members of the tramway. Irregular, or major maintenance may be carried out by professionals.

■ **Table 4-3 Tram Maintenance**

Frequency	Activities	Planned/Unplanned
Daily	Cleaning interior of trams Replacement of brake sand Checking, replacement of brake shoes. Check pantograph integrity	All activities planned to be undertaken as tram finishes run for the day.
Weekly	Tram washing	Planned
Every 6 to 12 months depending on wear.	Wheel grinding	Planned
Every 12 to 24 months depending on wear	Major servicing including: <ul style="list-style-type: none"> <li>- Lifting bogies off trucks</li> <li>- Wheel set removal/ replacement</li> <li>- Motor /gear box overhauls</li> <li>- Body overhaul and respray</li> </ul>	Planned
When Required	Crash repairs Component breakdown repairs	Unplanned

Source: Sinclair Knight Merz, 2003.

Most of the tourist tram operators consulted (including the Tasmanian Transport Museum at Glenorchy) noted that the actual cost of tram maintenance is often well below expected commercial costs. This is due to the common use of used spare parts (which can be very expensive for heritage tram parts, many of which have not been commonly manufactured for 50 years or more). The role played by the Council of Tramway Museums, Australia and New Zealand (COTMA) has also





facilitated the exchange of material and expertise between registered tramway museums and lowered the costs of keeping old trams in service substantially.<sup>18</sup>

Most of the tourist tramway operations throughout Australia have many more operating trams than the Hobart proposal would likely ever have, though most of them do not have any paid staff dedicated to tram maintenance. The Ballarat Tramway, for example holds some 15 trams in its collection and operates its maintenance regime for these trams on a shoestring. The Perth Electric Tramway Society, which is a 100% volunteer organisation, has six operable trams, five under restoration and a further thirteen trams which are planned to be restored in the future.

On the basis of the above, and stakeholder consultation, we envisage that maintenance of the trams and depot (which are not already covered in drivers' wages and on-costs) will be of the order of \$20,000 per annum (upper estimate).

#### 4.2.3 Marketing Costs

The total marketing expenditure for the tramway is expected to be well below standard industry benchmarks by virtue of its location within the tourist sector of Hobart – already the most heavily visited part of the entire state.

Given the visitation to the Hobart Waterfront of some 800,000 people per annum, the main challenge for the tramway will be to entice people who have already reached the various other attractions along the route to purchase a daily (or two day, or weekly) ticket and ride the tramway.

#### ■ Table 4-4 Selected Attractions along Tramway route

Attraction	2002-2003 patronage/visitors
Tasmanian Museum and Art Gallery	255,000
Hobart Visitor Information Centre	215,000
Maritime Museum	84,000
Hotel Grand Chancellor	82,700 nights sold

Source: Personal Communications.

Consultation with other tramway operators and operators of similar services within Hobart suggest that the most efficient method of marketing the tramway will be via

<sup>18</sup> In many instances, if surplus spare parts are available (and some state tram authorities claim a significant remnant stock of tramway parts) they can be made available to the requesting member for the cost of the freight of delivering it. Since all of the original Perth trams and parts had been scrapped by the time the museum commenced operations in the 1980s, the Perth Electric Tramway was built entirely from ex-Melbourne trams and spare parts. COTMA facilitated the donation of a significant amount of spare parts (including trucks) to Perth for only the cost of their freight (personal communication, managing director, PETS). Hobart City Council became an affiliate member of COTMA in 2002.





- Establishment and maintenance of timetables
- Production of promotional brochures/ flyers for Hotels, Hobart Visitor Information Centre
- Infrequent advertisements in Tasmania-wide or Hobart-wide tourism newsletters
- A semi-annual or annual publicity drive directed at local tourist accommodation to encourage them to advise their guests to use the service.

Consultation undertaken indicated that the cost of this package of marketing be of the order of \$15,000 per annum.

#### **4.3 Capital Costs**

While considerable funds have been invested in the restoration of several tram carriages to operate on the Hobart Tramway, the infrastructure itself has yet to be procured and installed<sup>19</sup>. As a result of this history, an *estimate* of the capital costs of the tramway infrastructure<sup>20</sup> is required to be produced for a complete business case to be formulated.

The main capital elements of the tramway are:

- The track infrastructure
- The Power Supply and overhead cables
- Fitout of the Storage Building (terminus) and other spaces
- Other costs (such as enabling roadworks, signage, landscaping and lighting). These are described in greater detail here.

#### **Track installation**

The cost of the narrow gauge track for the tramway has been estimated to be \$990,000, given the likely availability of refurbished turnouts and other parts. It is anticipated that COTMA will be of assistance in procuring second hand refurbished stocks for the tramway in general and track infrastructure will be of particular interest, since the trackwork represents the single greatest cost element of the development.

#### **Power Supply**

The power supply for the tramway is expected to cost some \$740,000, composed of the following elements:

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<sup>19</sup> Apart from base foundations for the tramway which have been installed in Mawson Place. This is accurate at October 2003.

<sup>20</sup> The findings of this section are based on an SKM review of capital cost estimates provided by Hobart City Council. SKM has not commented on the engineering design nor the choice of materials for the tramway, but has only assessed the likely price and availability of materials as nominated by HCC.



■ **Table 4-5 Power Supply and Overhead Capital Costs**

<b>Overhead</b>	<b>QTY</b>	<b>RATE</b>	<b>Amount \$</b>
Foundations	45	\$2,000 /pole	90,000
Poles	45	\$3,000 /pole	135,000
Suspension Hardware	45	\$1,500/ pole	67,500
Spans	5	\$800 /span	4,000
Curve Detailing	3	15% of above	133,000
Trolley Wire Connections			
<i>Tap to trolley</i>	3	\$1,500 each	4,500
<i>Trolley Wire anchors</i>	3	\$550 each	1,650
<i>Trolley Wire Equalisers</i>	2	\$800 each	1,600
Substation (50kW to 600kW)^	1	\$300,000 each	300,000
<b>Total</b>			<b>\$737,250</b>

^ This estimate includes an assumption that a refurbished substation of sufficient capacity would be available for installation on the tramway. A new 600 kW substation would be expected to cost between two and three times the amount provisioned in Table 4-5.

### **Terminus Fitout**

Development of the storage space within Hunter Street has been estimated to cost some \$500,000. This is expected to include some limited interpretive materials in the ante-room (38 sqm) before the main workshop (260 sqm), however the bulk of the funds are expected to be for installation of the workshop space. The overall spending ratio of \$1,675 per sqm is expected to be adequate for a significant fitout of the available space.

### **Other Costs**

In addition to the basic infrastructure for the tramway noted above, further elements are required for it to operate in a safe manner for both pedestrians and vehicles within its immediate vicinity. An allowance of a further \$300,000 has been made for a number of items including the installation of motorised lifts for disabled access to the trams (some \$80,000 for four lifts), roadworks and landscaping.

The total estimated capital cost for the tramway is as follows:



■ **Table 4-6 Capital Costs - Sullivans Cove Tramway**

<b>Element</b>	<b>Estimated Cost (\$)</b>
Trackworks	\$990,000
Power Supply and Overhead	\$737,250
Tram Terminus	\$500,000
Other Costs	\$300,000
<i>15% contingency</i>	\$379,090
<b>Total</b>	<b>\$2,906,340</b>

As is the case with many tourist development which are designed to generate a public benefit, the Sullivan's Cove tramway is not expected to generate a competitive market return on its capital development costs, but as noted in the following section, is expected to cover its operating costs, provided that the tramway is managed in a cost effective manner. The following section presents a breakeven analysis for the tramway's cash operating costs.



## 5. Breakeven Estimates - Operations

The preceding analysis has provided an indication of both the operating revenues and costs of the Sullivan's Cove tramway. This section will summarise the findings and recommendations above, and provide a description of the number of customers required for the tramway to cover its operating costs.<sup>21</sup>

### 5.1 Revenue per passenger

On the basis of the fares charged at other tramways in city locations and the fees charged for similar attractions in Hobart, it is expected that a daily ticket of \$5 per adult and \$3.50 per child for unlimited rides on the tram and access to the interpretation space will prove attractive to a large market. This fare is one of the lowest for a heritage tramway within city limits (see Table 4-1 above) and is also comparable with the cost of other existing Hobart Tours by bus or ferry (see Table 3-8). Our revenue model has assumed an even split between adult and child (concession) tickets, and given the numerical dominance of visitors travelling to Hobart without children (see Table 3-11) this is believed to be a conservative assumption.

### 5.2 Operating Costs

As noted above, the largest operating costs for the tramway will be labour (traffic staff/ management) and insurance.

On the basis of discussion with other operating tramways across Australia and New Zealand, a service with 3 operating trams along a 1.3 km track with a weatherproof terminus would require the services of

- 1.5 full time Drivers/regular maintenance (average across the year)
- 1 part time manager/driver/maintenance

The cost of a full time driver is estimated to be \$515.00 per week (Monday to Friday, ex on-costs), with 50% loading for Saturday, as per the industry standard for transport workers<sup>22</sup>. It is proposed that on Sundays, members of the Hobart Tramway Association will be rostered on to drive the trams.

Under these assumptions and adding 20% labour on-costs, one full time equivalent Driver working would cost the tramway \$40,000 and 1.5 x full time drivers, \$60,000.

<sup>21</sup> At this stage, the Sullivan's Cove Tramway operation is not expected to cover its capital costs, even without the sunk cost of vehicle restoration already undertaken.

<sup>22</sup> As defined in the Federal Transport Workers Award (1998), Update August 5<sup>th</sup> 2003. Grade 6 Transport Workers Award Wage: \$515.00 per week, plus 50% loading for Saturday, 100% for Sunday, Public Holiday plus 150%.



As noted above, a part time manager/cashier/vehicle supervisor would cost a further \$50,000 per annum (including on-costs).

Other costs for the tramway have thus far been estimated as:

- track and tram maintenance: \$20,000
- electricity: \$10,000
- marketing: \$15,000
- insurances \$45,000
- Interpretation for museum space \$10,000 per annum.
- Sundry office expenses \$5,000 per annum (ticket printing, utilities, miscellaneous consumables, IT allowance, etc).
- **Overall operating cost:** ~ \$215,000 per annum.<sup>23</sup>

### 5.2.1 Breakeven Patronage

Given the high visitation to Hobart and the concentration of visitation to the Cove, it is estimated that an effectively marketed tramway would be able to attract a large patronage.

Assuming an average ticket price of \$4.25 (\$5.00 for adults and \$3.50 for children/students in equal proportion<sup>24</sup>) it is expected that the tramway would attract some 80,000 admissions per annum, and on the basis of the cash outflows (above) would require some 50,600 tickets to be sold for the service to cover its operating costs, without considering other potential sources of revenue such as advertising or corporate sponsorship.

Given the very high existing visitation to the region and patronage levels at other attractions nearby, it is expected that this target could be achieved and that the tramway would not operate in a cash deficit.

*The tramway would require some 51,000 paying passengers p.a. to meet its annual operating costs*

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<sup>23</sup> This operating cost represents the basic cash outflow of operating the tramway before any return on capital (either due to a private operator or Council). Other cash expenses, such as rental, taxes and the like incurred by a private operator of the tramway would be expected to be negotiated between Council (as owner of the asset) and an operator via an open tender process. See Section 7.3.1.

<sup>24</sup> Given the high proportion of adult visitors to Hobart without children, this is a conservative assumption.



■ **Table 5-1 Sensitivity Analysis - Patronage Figures**

<i>Assumption</i>	<i>Patrons required to cover Cash Operating Cost</i>
Base Case (as above)	50,600
With \$100,000 cost of insurance	63,500
With higher 20% higher labour costs	55,800
With double maintenance cost	55,300
With two children per adult (at \$5 and \$3.50)	56,800
With two adults per child (at \$5 and \$3.50)	47,778
With \$2 adult ticket, \$1 student/child ticket	143,000
With \$6 adult ticket, \$3 student/child ticket (even proportion)	47,300

There does not appear to be a relevant *technical* limit for the tramway: a half-hour service carrying 15 passengers for 40 hours a week and 20 hours on weekends 52 weeks of the year can carry over 93,000 persons. Given that two trams are expected to operate in peak periods, there would appear to be surplus capacity to cater for 50,600 paying customers. The sensitivity of this estimate to key variables is as follows:



## 6. Project Risks

The main types of risk faced by the Sullivan's Cove project are asset risk and commercial (revenue and operating cost) risk. The share of these risks between Council and an operating entity will depend to a large degree on the nature of the agreement (operating structure) that Council chooses to adopt (see the following section). Another form of risk, regulatory risk, is less able to be influenced by Council and remains largely unmeasurable. Each of these elements of risk are discussed below.

### 6.1.1 Asset Risk

The asset risks for the project are related to unforeseen changes in the cost of developing the tramway or maintaining the rolling stock. While the capital costs for the tramway (estimated to be some \$2.9 million for fixed assets and another \$400,000 for outstanding tram restoration works) are based on experience elsewhere, the cost is still contingent upon Hobart City Council finding a number of refurbished parts which will save some \$500,000. The costs also reflect the current supply of materials and therefore assume that the tramway construction (or asset procurement) will commence in the short term. If development of the tramway is delayed by more than 12 months, it is recommended that the capital costs be revised.

The asset risk also relates to the rolling stock, albeit to a lesser extent, since Hobart City Council is already experienced in the restoration of heritage trams (via the Tasmanian Museum and Art Gallery) and has reduced the time component of the risk factor by commencing the bulk of the work.

Overall, asset risk is expected to be managed via efficient use of existing tramway networks (including COTMA and Victorian Tramway companies) to procure refurbished parts and by commencing with the tramway development as soon as possible.

### 6.1.2 Commercial (Revenue and Cost) risk

The next main risk element is commercial risk, which relates to the ability of the tramway to generate sufficient revenue to cover its operating costs over the long term.

Revenue risk may be split between price risk and volume risk, both of which are related to demand for the service. Either prices or patronage volumes may be lower than anticipated due to a variety of factors, such as increased competition, poor service levels, changes in underlying tourist preferences or other perceived problems with the tramway such as poor safety, for example, following an incident. (By the same token, prices or patronage volumes may also be *higher* than forecast due to lower than expected competition, growth in tourist numbers, etc.). Revenue may



also be affected by unforeseen mechanical or other difficulties with rolling stock or fixed assets which take the trams out of service for extended periods of time.

The management and mitigation of revenue risk is difficult unless a substantial amount of market intelligence can be assembled to clearly illustrate the market characteristics of the tramway and its competitors.

Revenue risk may be managed by changes to approaches to ticketing (daily or weekly tickets, family tickets, weekend / weekday pricing or altering the scale of concession/adult pricing) or by changing the packaging (or branding) of the tramway to reach a more profitable and sustainable market. Revenues may also be increased by diversification of the range of services offered (via retail merchandising, etc) or by altering the nature of service itself to increase demand (ie scheduling changes, interpretation on board the tramway, special night tours, maintenance tours, exchange of trams with other operators, etc). The revenue risk from breakdowns may be managed by the development of an appropriate breakdown recovery process, whereby the labour and materials necessary to cover a minor breakdown are accessible, and that all routine maintenance schedules are adhered to minimise the chance of a breakdown in any event.

The other side of commercial risk relates to unforeseen increases in the operating cost of the tramway. There are many elements of the operating cost of the tramway which may be influenced by supply and demand through time – including labour markets, spare parts markets or other elements (such as maintenance) which may be affected by regulatory changes (noted below). The cost of other items, such as insurance cover, may be influenced by factors which are well outside of Council's control.

Operating cost risk is best managed by entering into long term contracts for labour, whilst keeping these labour agreements as flexible as possible - ie as costs which vary as much as possible with increased activity, rather than being fixed. In this manner, operating costs (per passenger) may not necessarily increase during quieter times of the year. Involvement of volunteers or part-volunteers will also tend to reduce operating cost risk, provided that they can be brought into the operation for a long and secure period of time. In some areas, Council management or oversight can also have a mitigating effect on some costs in particular, such as public liability insurance.<sup>25</sup>

From a Council perspective, commercial risk may be managed effectively by outsourcing the tramway via a comprehensive concession agreement. As noted in the following section, the terms of a concession agreement may stipulate that the private (or not-for-profit) operator is responsible for delivery of a service to a given performance level and will only be eligible for a Council bonus if service exceeds a benchmark level or will pay a penalty for falling below a benchmark level.





Under this arrangement, Council is insulated from commercial risk; and it is only losing funds in a situation where the public is receiving a higher than expected level of service. Under this arrangement the most visible form of risk to the Council is contract default by an operator which may leave Council exposed to claims by suppliers or the public.

### **6.1.3 Regulatory Risk**

The final significant form of risk faced by the tramway relates to unforeseen changes to its regulatory context which make its operation more expensive or less appealing to customers or even untenable.

While in the planning stages, regulations such those pertaining to Occupational Health and Safety, rail and road safety, engineering standards and the like may all be incorporated into the method and design of operation for a new tramway. However non-trivial changes to the tramway's regulatory landscape may arise and require significant changes to operating procedures, causing loss of revenue or additional capital expenditure unless exemptions can be secured.

The prospect of significant regulatory change to the tramway is not believed to be high in Hobart, however any responsible operation which involves members of the public on rolling stock should be aware of the possibility and seek to plan any systems accordingly so that the significance of any change is able to be reduced.

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<sup>25</sup> Council ownership of the Bendigo Tramway, for example, enabled the Bendigo Trust to secure insurance cover through Council which would not otherwise been available.



## 7. Proposed Operating Structure

The success of the Sullivan's Cove Tramway as a tourist attraction bringing significant public benefit to Hobart will be determined to a large extent by the correctly placed enthusiasm and capability of its operator.

As the provider of the capital infrastructure for the tramway (both rolling stock and fixed infrastructure) Hobart City Council has a significant stake in the success of the tramway. Any operating arrangement should therefore involve a considerable degree of Council oversight designed to ensure that its investment provides a suitable level of service, optimises the benefit to the City and Tasmania and that the operation of the tramway does not produce any negative impact on the existing market for private tourism or transport services within the City.

There are a number of approaches that Council may take in ensuring that the tramway is operated efficiently whilst serving the public interest. The operation of the tramway must include safe and entertaining carriage of passengers according to a published timetable, maintenance of rolling stock and fixed assets (including interpretive material) and other administrative duties. These tasks will generally require a staff with appropriate expertise and contacts with existing networks/part suppliers etc.

The choice of operating structures available under the Council “umbrella” is extremely wide. Broadly, the main approaches are:

- 1) To run the tramway as a Council business unit
- 2) Operation by a private entity via a concession arrangement with Council
- 3) Operation by an entity via a commercial lease arrangement with Council

These three options (which cover a range of further sub-arrangements between Council and private operators) will result in both different levels of commercial risk to Council and different levels of operational expertise.

### 7.1 Run as a Council Business Unit operation

The benefits from this option are the availability of centralised administration and marketing support and complete internalisation of all oversight for asset maintenance. The main drawbacks of this approach are Council’s lack of experience in tramway operation and maintenance, its lack of a developed network of tourism-industry contacts, the inevitable competition for capital for the tramway against other Council business units and the debt provision required from Council to operate the tramway which may place undue strain on Council operations overall.



If the tramway were to be run as a Council business unit, it would also have to comply with National Competition Policy. Under National Competition Policy, in place since 1995, a government-owned business unit providing services in potential competition with the private marketplace must operate on a *full cost recovery basis*, with full attribution of all costs, as defined by Treasury guidelines. A description of these requirements is presented here.

### **7.1.1 Competitive Neutrality – Cost Implications**

Under the National Competition Policy agreement between all Australian Governments, agencies are required to implement a full cost pricing policy for significant business activities being undertaken, in order that a ‘level playing field’ exists with the private sector. Specifically, the policy ensures that agencies do not enjoy a competitive advantage over the private sector simply by virtue of their public ownership, as well as eliminating any advantages which may also exist.<sup>26</sup>

The implications of National Competition Policy (NCP) for Hobart City Council are that if it determines to operate the tramway as a business unit of Council it must price its services in a full cost recovery fashion, without prejudicing existing or likely private operators who would not enjoy the potential financial advantages available to a Council-based operator (such as exemption from certain taxes and charges or reduced overhead costs). The case for any subsidy below full cost recovery pricing (such as to produce public benefits) must be stated in a transparent fashion.<sup>27</sup>

*The Competitive neutrality principles under the CPA relate to removing any advantages a government business might otherwise enjoy as a result of its government ownership and any disadvantages which similarly may be imposed. The objective of the competitive neutrality principles is the elimination of resource allocation distortions arising out of public ownership of entities engaged in Significant Business Activities (SBAs). (DTF 1997,p.7)*

By the same token, if Council prefers to outsource the operation of the tramway to a lessee or concessionaire, it must ensure that the lessee or concessionaire do not enjoy any of these same benefits in acting on Council’s behalf and that the ‘level playing field’ is maintained within the market for tramway or substitute services in Hobart.

### **7.1.2 Full Cost Recovery**

The definition of Full Cost Recovery for Council run operations includes direct costs, indirect costs, capital costs, taxation and services and resources provided free of charge (DTF 2003).

The Fully Attributed Costs of running the tramway as a Council business unit are as follows:

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<sup>26</sup> Quoted from DTF (2003)

<sup>27</sup> As noted in DTF (2003) the likely creation of public goods is one rationale for the provision of a government subsidy (p.26).



■ **Table 7-1 Full Cost Attribution - Sullivan's Cove Tramway**

<b>Direct Costs</b>	Driving/conducting	60,000	
	Management	50,000	
	Insurance	45,000	
	Maintenance	20,000	
	Interpretation – renewal	10,000	
	Electricity	10,000	
	Office expenses	5,000	
	Marketing	15,000	215,000
<b>Indirect Costs</b> <sup>28</sup>	Council Overhead (estimate) <sup>29</sup>	5,000	5,000.00
<b>Capital Costs</b> <sup>30</sup>	Depreciation (see Table 7-2)	70,345	
	Opportunity Cost of Capital <sup>31</sup>	254,806	
	Opportunity Cost of Working Capital <sup>32</sup>	-	325,150.00
<b>Notional cost of services received</b>	Solicitor General Services (estimate)	2,500	
<b>Competitive Neutrality Adjustments</b>	Rates payable (estimate) <sup>33</sup>	5,000	
	Land tax payable (estimate)	5,000	12,500.00
<b>TOTAL</b>	<b>Fully Attributed Cost (estimate)</b>		<b>\$557,650.00</b>

■ **Table 7-2 Depreciation Calculations - Sullivan's Cove Tramway**

<b>Asset</b>	<b>Salvage Value</b>	<b>Expected Life</b>	<b>Replacement Cost</b>	<b>Annual Allowance (straight line method)</b>
Track	0	50	990,000	\$19,800.00
Tram bodies	100,000	50	400,000	\$6,000.00
Tram trucks	0	50	100,000	\$2,000.00
Other infrastructure	0	25	300,000	\$12,000.00
Tram motors	20,000	50	500,000	\$9,600.00
Tram Terminus	200,000	50	500,000	\$6,000.00
Overhead	50,000	50	797,250	\$14,945.00
				<b>\$70,345.00</b>

<sup>28</sup> Indirect Costs include shared agency costs (overheads) which are not directly attributed to the delivery of an output by Council.

<sup>29</sup> This includes the cost of paying wages, contractors etc.

<sup>30</sup> Asset depreciation and opportunity cost of capital

<sup>31</sup> Estimated as 7% of employed capital, per annum. Assumes zero cost of debt to fund capital investment and includes all tramway restoration costs, including sunk costs.

<sup>32</sup> Minimal working capital is required for the running of the tramway, since no stock is held (gifts, souvenirs) and hence no value has been applied for the opportunity cost of working capital.

<sup>33</sup> Rates payable for proposed tram terminus at No. 35 Hunter St, Hobart will be based on the potential rental value of the improved property. As there is no separate title (stratum or otherwise) for this site as yet, no Assessed Annual Value has been calculated for the property by the Valuer General and an estimate has been applied here.



It is important to note that the list of fully attributed costs noted in Table 7-1 is not entirely comparable with the cost structure shown in Section 5.2, since it is presented on an accrual basis rather than a cash basis (and includes capital provisions such as depreciation) and also includes a fuller set of assumptions regarding taxes and rates which are payable, which have been left to an open tender process in Section 5.2.

With a full attribution of costs (including an effective requirement for a 7% return on capital invested from the project) the tramway would require an implicit operating subsidy of \$217,651 per annum if it attracted 80,000 paid admissions. In order to cover this fully attributed cost, the tramway would require some 130,000 admissions per annum, or some combination of paid admissions and other revenues (such as advertising).

While attractive from the point of view that a service level could theoretically be guaranteed under this model, in general the benefits of this approach are exceeded by its costs and it is not recommended that the tramway be operated as a business unit of Council.

## **7.2 Operation by a private entity via concession arrangement**

A Concession Arrangement allows Council a high degree of control over the operation of the tramway, with more risk passed to the operator with regard to asset maintenance and financial responsibility.

Under this arrangement the contracted party would have the obligation to run the tram service for a fixed service of time with annual benchmark reviews and could also be held to a set degree of improvement in the quality or scope of service. With these agreements in place, the concession holder would receive all net revenues received from operating the tramway.

The concession arrangement would likely include a clause requiring that all assets incorporated into the tramway are returned to Council in the same state at the end of the term of the arrangement. The arrangement could also include penalties for operators who did not comply with the terms of their engagement (sub standard service, failure to comply with government regulations or premature break of tenure). At the same time, however, concession holders would have the discretion to meet their service obligations in the way they best saw fit.

If a model such as this were to be adopted, the Council may also determine how profits or penalties would be divided between the concession holder and Council for the duration of the contract. Several public transport concession arrangements include bonus payments for achievement of target patronage levels and penalties for low patronage – thus reinforcing the incentive for a concessionaire to provide a quality service and meet its forecasts. Since the tramway patronage estimates are not based on historic figures, it would be prudent to establish baseline expectations and any linking conditions after at least one year of operation.



The establishment of the tramway under a concession agreement would require that Council call for expressions of interest from suitably qualified parties in the private sector who would put forth their requirements (financial or other) to take the contract from Council (see below).

### **7.3 Operation by an entity via a lease arrangement**

Under this option, Council is responsible for all assets through the term of the arrangement (rather than the operator) and is normally paid an annual fee for operation of these assets by a private party.<sup>34</sup> Council is responsible for provision of all assets and continuing responsibility for capital investment. The operator is responsible for day to day maintenance and operational expenditure and would not be restricted in terms of their pricing schedules, etc (as opposed to the concession arrangement above).

Under this option there is a smaller regulatory burden upon Council, since the operator has much greater discretion regarding daily operational details, however this also indicates that the safeguards of quality and access which Council may require are not able to be satisfied to the same level as with a concession arrangement. This increased discretion for the operator (with respect to price and other details) will likely increase their expected return and either reduce their required compensation for running the tramway, or increase their bid (if a large profit is expected).

#### **7.3.1 Selection of an Operator (lessor or concession holder)**

In order to optimise the value for the city the selection process for a concession-holder or lessor should be competitive and be based on price and non-price elements. If the tender selection process is competitive and all potential entrants are provided the same information on which to base their bid, competitive neutrality will be maintained. The tender documents should define the parameters for, and method of measuring value in terms of safety, financial, tourism and other relevant outcomes yet to be determined.

Tenderers should be required bid on the basis of the value offered to HCC in their proposals by responding to:

- Specified non-price criteria (such as their financial stability, tourism experience, existing complementary facilities, etc); and
- Offering a financial contribution/charge to/from HCC on
  - a per trip
  - an annual charge basis; or

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<sup>34</sup> On the basis of the annual cost of capital (estimated in Table 7-1), some \$260,000 per annum as a leasing figure would be a useful benchmark for Council to consider.



- an “open book” basis in which financial, passenger number or other targets are established and, if exceeded or unmet then bonus payments or penalties may apply.
- or a combination of the above

The operational contract should be adequate and with at least one option to extend if mutually agreed, to encourage the operator to invest in improving efficiency and/or service delivery (although this may be stipulated in a concession agreement). A “greenfield” contract may be considered in which the operator is initially granted a 3 year contract that is reviewed annually against predetermined performance criteria. Each successful annual assessment would result in an additional year being added (ie. it will remain a 3 year term). Poor or “just satisfactory” performance would result in a 1 year reduction or a retention of the original termination date respectively.

### **7.3.2 Operation by a Voluntary Organisation**

As noted above (Section 4.1.2), there are a large number of groups of tram and train enthusiasts across the country who operate their own tramways and tram museums on a not-for-profit basis, returning all surplus income back to their organisation and donating significant amounts material and volunteer labour to their cause. A number of these groups exist in Tasmania (Glenorchy Transport Museum, Launceston Tramway Museum and Don River Railway are examples) and contain ranks of dedicated volunteers.

Operation of the tramway by a not-for-profit organisation is an option that harnesses the existing rail enthusiasm in Tasmania, promotes ongoing knowledge of restoration and operation of historic vehicles and offers the possibility of lower overall costs. This model has been embraced in Bendigo (Bendigo Trust) whereby the Council owns all of the assets of the Tramway but all operations are the responsibility of the Trust and profits are repatriated to the Tramway operations.

The relationship of a not-for-profit operator with the Council as owner could take many forms ranging for full operational, promotional and financial accountability, similar to a private operator model, to a tram maintenance and operation role only with HCC undertaking overall management of the attraction. A concession arrangement could involve part voluntary labour (under a share agreement with existing tramway societies, for example) or could conceivably be managed entirely by a not-for-profit (such as Bendigo).

The benefits of having the Tramway run by a not-for-profit organisation relate to their lower overhead costs (especially labour), good networks with other not-for profits (helpful when seeking assistance in kind) and underlying interest in seeking the development and enhancement of the tramway as far as possible. This point is not lost on government agencies (local, state, federal) who may be more forthcoming with capital grants in situations where operating profits are repatriated back to service delivery and infrastructure levels.



On the other hand, not-for-profit arrangements may suffer from lack of adequate skill or reliability compared with a commercial concession (or lease) holder. The issue of reliability of volunteer operations has been discussed in section 4.1.2 and needs to be taken into account in establishing the owner/manager to operator relationship in this scenario.

Overall, some form of concession arrangement appears to be the most prudent for Council, however this may involve an outlay from Council to the concession holder to entice their involvement.

It is recommended that Council call for public expressions of interest from potential concession holders to operate and maintain the tramway both on a profit and not-for-profit basis. Once a shortlist of tenders is prepared, Council may then detail the level and nature of service that is required and what other forms of agreement are sought. Once final tenders have been presented to Council, it would then be a clearer (and more transparent) process to determine which party would provide the best overall outcome for Council and its stakeholders.

#### 7.4 Summary - Options

A summary of the alternative management options before Council is presented in the following table.

■ **Table 7-3 Summary table – management options for Hobart Tramway**

	Management Option			
Cost Element	Council Business unit	Concessionaire Agreement	Lease agreement	Not-for-profit*
Degree of Council control	Complete	Higher	Lower	Dependent on contract. Council would likely be required to act as Guarantor for NFP body
Major Maintenance Costs	Council	Concessionaire	Council	Dependent on contract
Minor Maintenance Costs	Council	Concessionaire	Lessee	Dependent on contract
Insurance Costs	Council	Council	Lessee	Council
Council Revenues	Ticket sales	May be positive or negative, depending	Lease fees payable	Profits from operation would be





	Management Option			
Cost Element	Council Business unit	Concessionaire Agreement	Lease agreement	Not-for-profit*
		on degree of price and access control required by Council.	by lessee	returned to Tramway.
Revenue Risk	Borne by Council	Borne by Concessionaire	Borne by Leaseholder	Shared by Council and operator.
Overall advantage	Access to council marketing and other back office support. Council guarantee of service delivery. More likely access to volunteer labour	Council can retain a high degree of control via prescriptive arrangement. Incentive to provide good service and maintenance of assets.	Lower regulatory burden on Council, with operating decisions given to lessee. Revenues also payable from Lessee to Council.	Operating profits from Tramway are repatriated into the service rather than being taken away from the venture.
Overall disadvantage	Council not well suited to delivery of tram services. Tramway operating cashflows may bring Council finances under strain. Lower degree of managerial autonomy – requirement to adhere to Council directives	May require Council to pay a concessionaire to take Tramway operation contract, if pricing and access controls reduce expected returns. Higher regulatory burden owing to Council control asset maintenance inspections, potential for operational controls.	Council will have less control over asset maintenance and less say on pricing and access of tramway services.	Reliability may be lower than professional, commercial operation. Less incentive to provide high quality service without profit motive.

^may be a lease or concession arrangement



## 8. Conclusion

The objective of this report was to present a business plan for a tramway along Sullivan's Cove in Hobart which would show its place within the existing mix of tourist product in Hobart and indicate what level of patronage would be required for it to cover its operating costs.

The conclusions of the report, listed below, provide key recommendations as to how the tramway should be run and how Council should proceed with the proposal.

- the tramway should be designed and promoted primarily as a tourist tramway and not as part of a broader commuter service for Hobart in its initial stage
- the tramway's position within the epicentre of tourism for Tasmania will lend it a very high level of exposure which will add considerably to its ability to attract a large patronage.
- the tramway is expected to incur a cash operating costs of some \$215,000 per annum (including labour costs, insurance, marketing, maintenance, office consumables, interpretive display installation and electricity). On a full cost attribution basis, the annual cost of the tramway is some \$557,000 per annum (including an annual opportunity cost of capital of some 257,000).
- given an average daily ticket price of some \$4.25 (\$5 adults, \$3.50 children/concession), a total of 50,600 tickets will need to be sold to cover the tramway's cash operating costs. Given the large number of visitors to the Hobart Waterfront it is expected that this target market could be achieved (assuming all other revenue sources are insignificant)
- Some 130,000 paid admissions (or some combination of admissions and other revenue sources) would be required to cover its fully attributed cost (including an expected 7% return on capital).
- The main strengths of the tramway are its location, its support from Council and adjacent tenants in Hunter Street and the authenticity of its heritage trams
- Its main weaknesses are the shortness of the route (which is within walking distance for an able-bodied person) and difficult access across Davey Street
- Its main opportunities are for potential linkages with local attractions and other transport facilities (ferries, etc) and the potential for route extensions
- The main threats to the tramway's viability are the availability/cost of public liability insurance and conflicts with the Australian Standard for Rail Safety. Development approval for the project is also pending an appeal which may delay the process
- Council should investigate the feasibility of route extensions which would enhance the value and returns from the tramway beyond its present scope.



- Council should call for public expressions of interest for a private-sector entity to operate the tramway via a concession arrangement which gives Council a high degree of discretion about how the tramway should be run and which ensures that all assets are returned to Council in a specified condition after a fixed term
- Council should minimise its asset, commercial and regulatory risks by applying long term planning and by establishing the tramway as soon as possible.



## Appendix A Groups/Persons Consulted

Name	Organisation / Affiliation
Tim Short	HCC – Economic Development Officer
Leyon Parker	HCC – Group Manager, Road and Traffic Engineering
David Spinks	HCC – Director, Financial Services
Brent Armstrong	HCC – General Manager, Hobart City Council
Michael Roberts and Simon Currant	Tourism Council Tasmania (GM and Chair)
Helene Stewart	Tasmania's South Regional Tourist Association, Tasmanian Travel & Information Centre-Hobart
Bill Bleathman	Tasmanian Museum and Art Gallery (TMAG)
Peter Young	(Tasmanian) Department of Economic Development
Peter Fell	Captain Fell Tours
Operators	Glenorchy Tram Museum
Ian Roberts	Developer, Hunter Street Apartments
Rowan Sproule	Tourism Tasmania
Lauren Khull	Tourism Tasmania (Tasmanian Visitor Survey)
Janey Foley	Tourism Tasmania
Bridget Walch	Tourism Tasmania (Hobart Branding Study)
Jeff Thomas	Sullivan's Cove Traders Association
Adrian Bott	Financial Officer Voss Group
Tony Coleman	TMAG Tram restorer*
Kim Smith	Bendigo Tramway*
Dave Lee	Western Springs (Auckland) Tramway (MOTAT)
Greg Sutherland	Manager, Sydney tramway Museum
Kim Smith	Manager, Bendigo Tramway
Warren Doubleday	Ballarat Tramway
Dave McCartney	Ballarat Tramway (Chairman)
Dougal McDougal	Director, Tasmanian Maritime Museum
Andrew Fry	Reservations Manager, Hotel Grand Chancellor
Sean Rooney	Manager, Christchurch Tramway
Dave Hinmann	Christchurch City Council – Transport Manager
Michael Stuckey	Perth Electric Tramway
Ron White	Manager, St Kilda Tramway Museum (Adelaide)
Mark Addis	Secretary, DIER Chair, Hobart Waterfront Steering Committee
Ian Stewart	Manager, Western Springs Tramway (Auckland)



## Appendix B Product Mix – Salamanca Cove

Product Category	Region	Charge/ Entry Fee
<b>Retail</b>		
Bottle Shop 9/11	Gas Works	Free
Mawsons Sheepskin and Opals	Near TVIN	Free
Gerard Williams Maps	Near TVIN	Free
Kent and Kent Antiques	Near TVIN	Free
Club Marine Boat Sales	Waterman's Dock	Free
The Opal Shop	Waterman's Dock	Free
Rug Studio	Salamanca Square	Free
Klektik	Salamanca Square	Free
Hobart Bookstore	Salamanca Square	Free
Socrates	Salamanca Square	Free
Kathmandu	Salamanca Square	Free
Salamanca Newsagent	Salamanca	Free
Sportshop	Salamanca	Free
Peter Johnstone Ship Chandlery	Salamanca	Free
Astrolabe Booksellers	Salamanca	Free
Shiver Me Timbers	Salamanca	Free
Normann and Dann	Salamanca	Free
Artisan	Salamanca	Free
Tasmanian Woolshed	Salamanca	Free
Sullivan's Cove Craft and Souvenirs	Salamanca	Free
Naturally Tasmanian	Salamanca	Free
Lifestyle Furniture	Salamanca	Free
Salamanca Fruit Market	Salamanca	Free
Tas Gift Shop	Salamanca	Free
<b>Art Shops/Gallerys</b>		
Salamanca Arts Centre (Theatres)	Salamanca	Free
Sidespace	Salamanca	Free
Aspect Design	Salamanca	Free
Handmark Gallery	Salamanca	Free
Salamanca Collection Gallery	Salamanca	Free
<b>Visitor Attractions</b>		
Tasmanian Museum and Art Gallery	Macquarie Street	Free
Maritime Museum	Argyle Street	\$6.60
Tasmanian Visitor Information Centre	Davey Street	Free
Parliament House	Salamanca	Free
Gas Works	Gas Works	Free



Product Category	Region	Charge/ Entry Fee
Tasmanian Distillery	Gas Works	Free
Uni of Tas Art Centre	Hunter Street	Free
Brooke Street Pier & Cartela	Brooke Street Pier	\$18-35
Waterman's Café and Maritime Cruises	Brooke Street Pier	Dependant on tour
Captain Fells Tours	Brooke Street Pier	\$4-23 dependant on tour
Mawsons Place	Mawson Place	Free
Docks and Boats	Docks	Free
Salamanca Markets	Salamanca	Free
Hobart Historic Walks and Pub Tours	Hobart	\$19
Captain Fells Double Decker Bus	Derwent River	\$8
John Gregory Double Decker Bus Tours	Hobart	\$16
Tram Tour	Greater Hobart	\$30
<b>Pubs</b>		
Knopwoods	Salamanca	Free
Club Surreal/Around Midnight	Salamanca	Free
Irish Murphy'	Salamanca	Free
Customs House	Customs House Precinct	Free
IsoBar	Customs House Precinct	Free
Telegraph Pub	Customs House Precinct	Free
Barcelona	Salamanca Square	Free
<b>Food</b>		
Sals	Salamanca	Free
Vietnamese Kitchen	Salamanca	Free
Rockefellers	Salamanca	Free
Retro	Salamanca	Free
Café Zum	Salamanca	Free
Mikaku	Salamanca	Free
Maldinis	Salamanca	Free
Mamalukas	Salamanca	Free
Ball and Chain	Salamanca	Free
Parthenon	Salamanca	Free
Wursthaus	Salamanca	Free
Mikaku	Salamanca	Free
Ball and Chain	Salamanca	Free
Davincis	Salamanca	Free
Drifters Internet Cafe	Salamanca	Free
Sticky Fingers	Waterman's Dock	Free
Blue Skies	Waterman's Dock	Free
Harbour Lights Cafe	Customs House Precinct	Free



Product Category	Region	Charge/ Entry Fee
Elbow Room	Customs House Precinct	Free
Siscos	Waterman's Dock	Free
Banjios	Salamanca Sqaure	Free
Bakery	Salamanca Sqaure	Free
Say Cheese	Salamanca Sqaure	Free
Machine	Salamanca Square	Free
Sugo	Salamanca Square	Free
Lark Distillery	Near TVIN	
Morrison Street News Cafe	Near TVIN	
T42	Elizabeth St Pier	Free
Fish Frenzy	Elizabeth St Pier	Free
Mures	Elizabeth St Pier	Free
Pashas	Elizabeth St Pier	Free
Drunken Admiral	Hunter Street	
<b>Accommodation</b>		
Grand Chancellor	Hunter Street	
Salamanca Inn	Salamanca	
Customs House	Customs House Precinct	
Woolmers	Hunter Streer	



## Appendix C References

DTF (1997) Guidelines for Implementing Full Cost Attribution Principles in Government Agencies. Department of Treasury and Finance, Hobart September 1997.

DTF (2003) Costing Fees and Charges, Guidelines for Use by Agencies. Department of Treasury and Finance, Hobart. Third Edition, May 2003

Tourism Tasmania (2002) Tasmanian Experience Strategy, Hobart.

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